

## Dwindling Entrepreneurial spirit in the United States: A Time for Rethinking and Action

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### Abstract

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The purpose of this paper was to investigate the status of entrepreneurship in the United States. Findings indicate that entrepreneurship is in a state of decline at alarming rates, a situation that requires considerable rethinking and appropriate action. Data show that the birth of newly established entrepreneurial firms – companies with fewer than 20 employees – dropped from 558,500 in 1990 to 515,100 in 2011, a decrease of 8 percent. On the other hand, the death of young firms increased by 11 percent during the same time. While the country created 2,230 new business ventures per million of population in 1990, it created only 1,653 ventures in 2011, a decline of 26 percent. The paper discusses key factors that contribute to the waning of entrepreneurial spirit, and suggests that a viable course of action for entrepreneurs is to craft and implement disruptive innovation strategies to achieve continuity and growth of their business ventures.

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**Keywords:** Entrepreneurship, business ventures, births and deaths of firms.

### 1. Introduction

The everlasting “creative destruction” process of Schumpeter (1976) is exemplified by the emergence of innovation and disruptive innovation. It is also signified in the births and deaths of entrepreneurial business firms. Economic progress is generated by the creation and expansion of businesses, and the production of goods and services. It is fueled in the long-run by net business creation (i.e., the difference between firm births and firm deaths). New firms create additional employment, investment, and income. They are the force of technological advancement and economic prosperity. On the other hand, firm deaths (i.e., disappearance), everything else being constant, would lead to economic retardation, because of the resulting unemployment and decline in national income. Entrepreneurship in the United States is facing major challenges including the following:

- Declining rate of new ventures creation;
- Persistent deaths of young firms at astonishing rates; and
- Relative dearth of novel and economically viable ideas for venture creation and sustainable growth, as evidenced by (1) and (2) above.

The challenges are serious that need to be addressed to accelerate the country’s technological progress and economic prosperity. Scholars have discussed the factors that contribute to small firms’ failure, including entrepreneurs’ lack of innovative business models, inexperienced management, insufficient funds, poor planning, intense competition, and lack of market knowledge (e.g., Carter and Van Auken, 2006; Ropega, 2011; Minello, Scherer and da Costa, 2014; Valencia, 2016). Strategic innovation could enable newly born– and other entrepreneurial –firms to introduce new and/or improved goods and services by means of combining novel ideas, skills, technology, and marketing methods. Examples of such firms include HomeAdvisor, Facebook, Tesla, Airbnb, Survey Monkey, Diamond Foundry, Uber, and Snap chat.

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Many of the highly successful entrepreneurial firms are considered “disruptors” to existing products, business models, or practices<sup>2</sup>. Would-be entrepreneurs need to have a mindset of disruptive innovators, and adopt a strategy of *disruptive innovation*, a term introduced by Clayton Christensen in 1997.

## 2. Purpose and Research Design

The purpose of this paper was to (i) discuss the declining trend in entrepreneurship in the United States, (ii) explore the factors that cause the deaths of entrepreneurial firms at very young age, (iii) summarize the theory of disruptive innovation, and (iv) indicate the need for entrepreneurs to benefit from the theory by crafting strategies consistent with its guiding principles. Published data by U.S. official agencies such as the Small Business Administration were analyzed for the period 1990-2011 to identify trends in entrepreneurship. The 1990-2011 period was selected because of the availability of complete and comprehensive data set. Annual differences between firm births and firm deaths were calculated, analyzed, and related to the country's population growth. Firms with fewer than 20 employees each (i.e., entrepreneurial ventures) were the subject of the study.

## 3. Entrepreneurship

Entrepreneurship is a complex phenomenon and multidisciplinary field of knowledge (Carland, Hoy, and Carland, 1988; Gartner, 1989; Cromie, 2000). It has been the subject of scholars' interest since Richard Cantillon's pioneering contribution in 1730 about the function of entrepreneurs in the economy (Ruhul, 2005). Scholars have approached the phenomenon from different perspectives and offered a variety of conceptualization. For instance, Audretsch, Kuratko, and Link (2015) indicated that entrepreneurship means different things to different people, a situation that has fostered a multitude of definitions of the phenomenon. Indeed, many definitions and conceptual models have been advanced to theorize the phenomenon and elaborate on its nature and impact. For example, Bygrave and Hofer (1991) perceived entrepreneurship as entrepreneurial event and defined it as the creation of a new organization to pursue an opportunity. In the same vein, Krueger and Brazeal (1994) viewed entrepreneurship as the pursuit of an opportunity, while entrepreneurs are those individuals who perceive themselves as pursuing such opportunities. Similarly, McMullen and Shepherd (2006) asserted that to be an entrepreneur is for the individual to act on an identified opportunity worth pursuing. Following the essence of the concept referred to above, entrepreneurship is defined in this paper as individuals' tendency to establish business ventures to enhance their wellbeing.

In this context, Rotefoss and Kolvereid (2005) pointed out that there are three key stages in the creation process of new business ventures: (a) becoming an aspiring entrepreneur, (b) a nascent entrepreneur, and (c) a founder of a fledgling new business. The authors added that entrepreneurial experience is the single most relevant factor for predicting the outcome of the business start-up process. Undoubtedly, would-be entrepreneurs face several obstacles in their efforts to establish and grow business ventures. Choo and Wong (2005), for example, summarized some of the barriers to include: (a) lack of capital, (b) lack of skills, (c) and lack of confidence. Several influential theories and models about entrepreneurship have been introduced in past years (e.g., Vesper, 1980; Bird, 1988; Bygrave and Hofer, 1991; Shaver and Scott, 1991; Busenitz and Lou, 1996; Forbes, 1999). The contributions include personality characteristics of entrepreneurs, the theory of planned behavior, the population theory (or organizational ecology), the theory of internal locus of control, psychological models of entrepreneurs, and cultural and social models of entrepreneurs. Informative discussions about the subject matter can be found in Kuratko, Morris, and Schindehutte (2015) as well as Ferreira, Reis, and Miranda (2015).

## 4. The Entrepreneurial Spirit

It is said that ‘being an entrepreneur is the most exhilarating feeling in the world comparable only to flying with your own wings’ (Kullar, 2016). The benefits of being an entrepreneur are many for the individuals concerned and the national economy. Entrepreneurship is strongly admired in the United States as well as elsewhere around the world. Several theoretical approaches attempt to explain the motivating factors for individuals to become entrepreneurs. Briefly, they include the following (e.g., Orhan and Scott, 2001; Williams, 2007; Xie, 2014, Halbinger, 2016):

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<sup>2</sup>CNBC publishes an annual list of leading entrepreneurial disruptive companies, see for example, 2017 CNBC's Disruptor 50 list, [www.cnbc.com](http://www.cnbc.com).

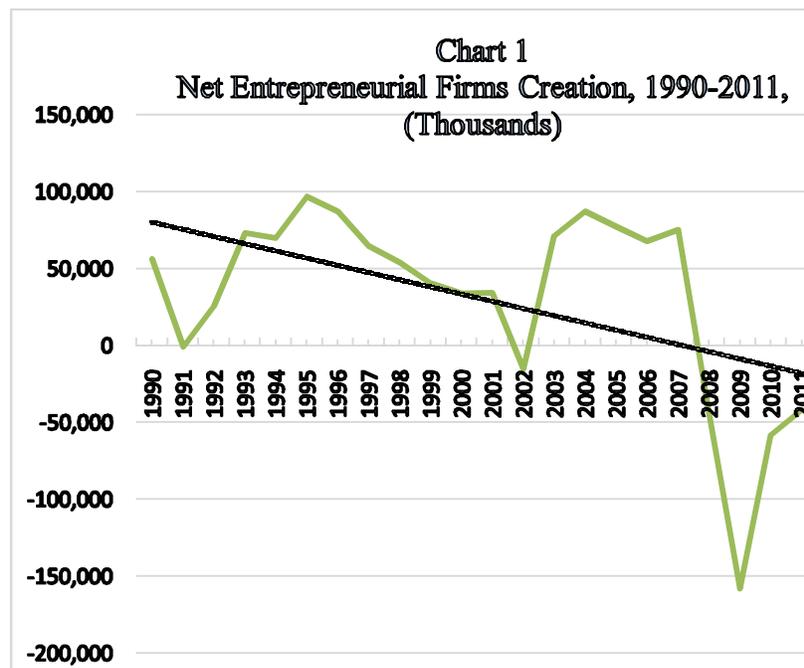
- Need for achievement.
- Search for financial independence.
- Desire for venture creation.
- Career dissatisfaction.
- Profit motivation.
- Job security.
- Self-fulfillment.
- Societal influence.
- Opportunity exploitation.

## 5. Trends in Entrepreneurial Ventures

The United States, unlike many other countries, enjoys stable political system, expanding population, growing economy, and inviting investment opportunities. Under such conducive business environment, one would expect to find an endless annual stream of flourishing entrepreneurial ventures. Evidence, however, shows that entrepreneurial tendency to create business ventures in the country is rather declining. Figure 1 below shows the dwindling trends in the creation of net new entrepreneurial firms during the period 1990-2011. For example, in 1990, entrepreneurs created 53,492 *net* new firms. In most recent years, however, this gain was reversed. The economy lost a *net* total of 302,547 firms, as follows:

- 42,149 firms in 2011.
- 58,515 firms in 2010.
- 158,340 firms in 2009.
- 43,543 firms in 2008.

As the declining trend – in the net creation of entrepreneurial firms – continues, the firms' contribution to national employment, investment, output, and income will also be diminished. To illustrate, in 1990 for example, the newly born firms employed 1,886,000 people. In 2011, newly established firms employed 1,579,000 people, a decline of 17 percent.

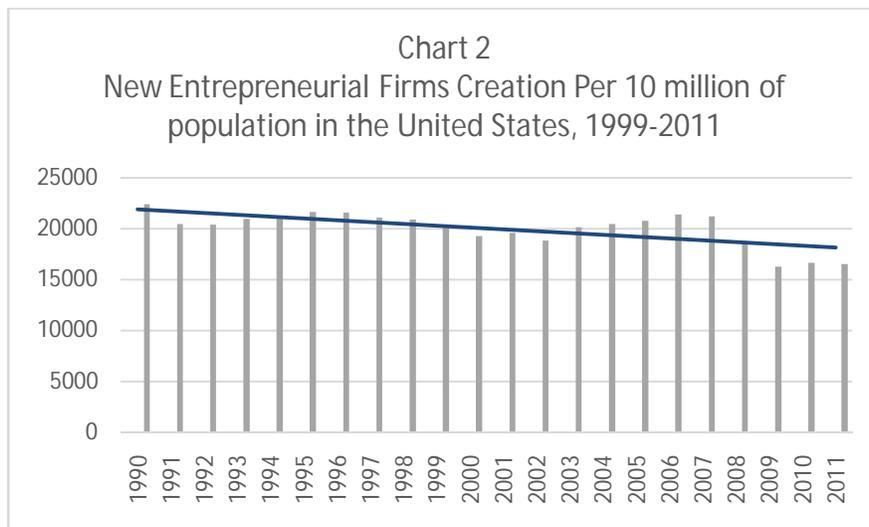


Source: The figure is based on data published by the Small Business Administration, <https://www.sba.gov/advocacy/firm-size-data>.

The World Bank provides indirect supporting evidence about the weakening entrepreneurial propensity in the United States. In a Bank's publication entitled doing business (2017), the United States was ranked number 8 in terms of ease of doing business. Top ranking countries were the following:

- New Zealand (#1);
- Singapore (#2);
- Demark (#3);
- Hong Kong, SAR, China (#4);
- Korea, Republic (#5);
- Norway (#6); and
- United Kingdom (#7).

In constructing the country ranking index, the Bank utilized a combination of indicators including: (i) starting a business, (ii) dealing with construction permits, (iii) getting electricity, (iv) property registration, (v) trading across borders, and (vi) enforcing contracts. The diminishing trends in entrepreneurship is more pronounced if one takes into consideration the growth of the country's population during the period in question (1990-2011). Figure 2 shows the number of newly founded entrepreneurial business ventures per million of U.S. population. The Figure indicates that 2,239 new firms were created in 1990, while 1,653 firms were established in 2011, a decrease of 26 percent. It is interesting to observe that the number of newly founded entrepreneurial firms per million of population in 1990 were the highest for the entire 1990-2011 period, implying a worsening business climate for entrepreneurs in recent years.



Source: Figure 2 was constructed from data published by (a) the Small Business Administration, <http://www.sba.gov/advocay/firm-size-data>, and (b) Texas State Library and Archives Commission, <http://www.tsl.texas.gov/abouttax/census.html>.

### 5.1 Why Dwindling Entrepreneurial Spirit

The entrepreneurial spirit is influenced by individuals' internal (intrinsic) factors as well as the external (extrinsic) environmental forces, including the following:

- The tendency of many individuals to engage in a relatively more secure and stable employment offered by governmental agencies as well as the private sector. Entrepreneurship, being uncertain and risky endeavor, is not the best career path for such individuals. Therefore, it could be argued that, in an environment with growing demand for employment, the individuals' tendency for entrepreneurial activity would decline.
- Increasing public service of federal, state, and local agencies has resulted in growing needs for employees. Government employment has made it possible for millions of individuals to avoid entrepreneurship.
- Newly arriving immigrants are generally not sufficiently equipped to participate in entrepreneurial activities, unless there are governmental support systems in place to assist them for this purpose.

- Difficulties facing would-be entrepreneurs to secure necessary funds to enable them to translate their ideas into business ventures.
- Lack of sufficient federal, state, and local facilities to provide essential managerial and technical support (e.g., training, opportunity identification) to would-be entrepreneurs.
- Lack of viable, unique, and profitable ideas for starting new ventures.
- Decline in aggregate demand for goods and services because of economic recessions in previous years.
- First time entrepreneurs are often not trained in the art and science of opportunity identification, opportunity evaluation, and opportunity exploitation. Nor they are trained in business analysis and strategic thinking. The absence (or lack) of training in these areas is perhaps a key factor for the death of so many business firms at very young age.

## 6. Invention, Innovation, and Disruptive Innovation

The concepts of invention and innovation have received extensive treatment in academic literature. As a result, scholars have advanced many definitions of the concepts. This paper emphasizes the definitions offered by Merriam-Webster dictionary, because of their simplicity and comprehensiveness. Accordingly, invention refers to “discovery, finding”, while innovation means “the introduction of something new”. Thus, invention could be thought of as something like an idea that has not been commercialized, while innovation is something like a product that has been commercialized. There are many theories that explain the process of innovation including market pull and technology push (e.g., Khilji, Mroczkowski, and Bernstein, (2006). The focus of this paper is on the theory of disruptive innovation – a unique paradigm of innovation. In this context, three kinds of innovation are identified (Christensen, 1977; Christensen and Raynor, 2003; Christensen, Raynor, and McDonald, 2015):

- (1) Market-creating innovations. Innovations that transform complicated, expensive products into things that are more affordable and accessible. These kinds of innovations create aggregate economic growth, higher levels of employment, and additional income. Market-creating innovations should be the target of would-be entrepreneurs, because they could pave the way for venture survival and growth.
- (2) Sustaining innovations. Innovations that make good products better. They keep the market competitive and vibrant, but they don't help create new employment.
- (3) Efficiency innovations. Innovations that increase efficiency. They help organizations to do more with less resources, but they don't contribute to aggregate economic growth. Efficiency innovations tend to eliminate jobs.

According to Christensen and his colleagues, disruptive innovation theory refers to the following activities:

- Introduction of innovative, low-cost, products primarily intended to satisfy consumers' unmet needs;
- Creation of new markets; or
- Deployment of new business models.

The theory also addresses the question: What does it make successful firms to be potentially forced out of the market? Christensen and his associates would respond to the question by saying that the incumbents might be vulnerable because they overshoot their customers' needs via sustaining innovation. Consequently, some customers – who constitute a market niche worth targeting – either cannot afford purchasing the product, or they don't need the extra features or functionalities. The theory stipulates that continuous product improvement designed to satisfy the high-end of the market will pave the way for disruptors to enter the market by offering cheaper, simpler, and inferior substitute for the low-end market. Disruptive innovation brings to the marketplace different value proposition than had been available. Many scholars and professionals have voiced their support for the theory of disruptive innovation. For example, Markides (2012) pointed out that disruptive innovation has been the strategy that credited as the plan that led to Japan's impressive economic progress after World War II. Noor (2005) indicated that disruptive technologies have emerged in many fields, including biotechnologies, information, and nanotechnologies. The author added that these technologies are likely to cause radical changes in the way products and systems are developed, and the way engineering work is performed. Gilbert (2003) declared that disruptive innovation has been the source of economic growth; it will continue to destroy entrenched businesses and attack established markets.

Govindarajan and Kopalle (2006) believed that disruptive innovations are effective means for developing new markets which, in turn, disrupt existing market linkages. Leavy (2004) believed that disruptive innovation is a dynamic process and it will continue to pose threats to sustaining innovation. The theory, however, has been challenged by some scholars. For instance, Danneels (2004) suggested that Christenson does not make a clear distinction between disruptive technology and sustaining technology. Lepore (2014) asserted that Christensen's theory is about why business firms fail; it's not more than this. The author added that Christenson's sources are dubious and that the theory rests on his arbitrary definition of success. King and Baljir (2015) declared that many of the theory's exemplary cases did not fit well some of its conditions, that the theory was essentially based on hard drive industry in the 1970's and 1980's, and that the full theory should only be applied when specific conditions are met.

### 6.1 Benefiting from Disruptive Innovation

Scholars have suggested a number of approaches to assist firms in their efforts to cope with disruptive innovation. For instance, Raynor (2011) believed that, to enjoy the fruits of disruptive innovation, business firms need to utilize low-cost models in combination with enabling technologies. Norton and Pine (2009) recommended that companies should invest more time and efforts to understand the emotional and social jobs customers want to accomplish. Similarly, Reinhardt and Gurtner (2011) emphasized that the process required to develop disruptive innovation is to gather the right information about customers' needs. Moreover, Sharzynski and Rufat-Latre (2011), in their analysis of successful and unsuccessful industry disruptors, observed that three issues are of importance: (a) the ability of companies to anticipate and act on market discontinuities and unmet customer needs, (b) the ability to link incremental and breakthrough innovation, and (c) the recognition that disruptive innovation can inform strategy as strategy can inform disruptive innovation. Finally, Petrick and Martinelli (2012) recommended a road map that includes the following steps for business firms planning to engage in disruptive innovation:

- Scan the environment for major events and trends.
- Distinguish between key trends and minor ones.
- Identify problems from the end users' viewpoint.
- Prioritize solutions and assess them.
- Recognize needs on the bases of existing capabilities and end-users' needs.
- Find partners needed and their roles.
- Pinpoint activities needed to implement the desired strategy.

### 6.2 Disruptive Innovation and Entrepreneurs

Building on the theory of disruptive innovation, one can suggest that individuals, especially would-be entrepreneurs, need to be trained by way of formal or informal education to become disruptor entrepreneurs – not just small business owners. The objective of the disruptors' educational program is to assist them identify market opportunities in desired targeted sectors of the economy. The program consists of two key components:

- To create entrepreneurial awareness of market opportunities via, for example, such techniques as market analysis, industry analysis, product analysis, and competitive analysis.
- To develop entrepreneurial strategic thinking via, for example, such techniques as lateral thinking, business simulation, and the theory of inventive problem solving (TRIZ).

In addition, the program should involve discussions/ analysis of venture creation issues, including the following:

- Unmet consumer needs that need to be addressed in the targeted sector.
- Product characteristics overlooked by existing companies.
- The specific market to be targeted (e.g., local, regional, national).
- The kind of technology, skills, and the like needed to launch the planned venture.
- Can existing technologies, ideas, models, or methods be combined to achieve successful launching of the intended product?
- Approximate amount of funding required for the venture, and sources of financing.
- The business strategy (or strategic initiatives) that need to be implemented during the early state of the venture.

### 6.3 Criteria for Viable Ventures

It's necessary for entrepreneurs to assess the practicality and potential success of their ventures prior to seeking funding. Although there are several sources of venture funding in the United States – including business angels and banks – venture capitalists remain the main source of financing. Venture capitalists are willing to review venture proposals, and might participate in financing economically sound projects. The majority of venture proposals are expected to be refused for financing. Venture capitalists want to minimize risks and maximize return on investment by investing in highly competitive industries (Ziber, 1998). In any event, proposal reviews typically focus on the following four factors (e.g., Tyebjee and Bruno, 1984; MacMillan, Siegel, and Subba, 1985; Chotigeat, Pandey, and Kim, 1997; Zutshi, Tan, Allampalli, and Gibbons; 1999; Šimić, 2015):

- Financial attributes of the venture (e.g., expected risk, expected rate of return, investment liquidity, size of investment required).
- Product/service attributes (e.g., product proprietary, product uniqueness, product competitive edge, stage of development).
- Market attributes (e.g., market size to be created, market growth rate, market niche, market knowledge, barriers to entry).
- Entrepreneurs/management team (e.g., managerial experience, sustainability of intense efforts, risk tolerance, leadership capability).

### 7.0 Recommendations

Entrepreneurs create business ventures, provide employment, develop technologies, and generate wealth ((e.g., Kefela, 2011; Hafer, 2013). They are a major source of economic growth in the United States. Decisions to energize the country's entrepreneurship include the following:

- Entrepreneurs' engagement in viable, disruptive innovation ventures.
- Increase the involvement of educational institutions to help would-be entrepreneurs build careers in entrepreneurship via innovative academic courses, programs, and degrees.
- Strengthen the capabilities of such specialized governmental agencies as the Small Business Administration to guide entrepreneurs to identify markets, develop business models, secure funds, and the like.
- Initiate state and/or local governments' programs (e.g., weekly classes) aimed at encouraging women, the unemployed, and other interested individuals to establish entrepreneurial ventures.
- Involve non-profit foundations to sponsor lecture programs directed toward the public in general, and young people in particular to explain the benefits of entrepreneurship.
- Introduce introductory entrepreneurship courses in middle or high schools to ignite students' interest in the subject matter.

### 8.0 Conclusion

Entrepreneurship, however defined, is essential for the sustainability and advancement of the U.S. economy. The role of entrepreneurs in the country's technological and economic development is widely discussed in the literature. In recent years, the entrepreneurial tendency – which manifests itself in the creation of new net firms – experienced a steady decline, indicating worsening business environment for entrepreneurs, and the founding of increasingly less economically viable ventures. Combined efforts by government agencies, educational institutions, and entrepreneurs can reverse the waning trend in entrepreneurial spirit. Entrepreneurs' emphasis on disruptive innovation in the creation of business ventures appears to be a viable strategy for achieving success and profitability. Potential customers are expected to welcome appropriate and needed disruptive goods and services in the marketplace. As Christensen and his colleagues explained, the theory of disruptive innovation is about (a) innovations that transform existing products by introducing simplicity, convenience, and affordability, (b) innovations that create new markets, and (c) innovations that introduce new business models.

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